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# Contingent liability reserve for the United Nations Postal Administration**

## Report of the Secretary-General

*Summary*

The present report is submitted further to section VI of General Assembly resolution 57/292 and the second performance report of the Secretary-General on the programme budget for the biennium 2002-2003, as it relates to the review of the United Nations Postal Administration (A/58/558/Add.1). It further recalls the report of the Advisory Committee on Administrative and Budgetary Questions (A/58/604) and the comment of the Secretary-General and of the United Nations Chief Executives Board for Coordination on the report of the Joint Inspection Unit on the revenue-producing activities of the United Nations system (A/57/707/Add.1).

In the present report, the Secretary-General provides further information on the issue of the contingent liability for stamps issued by the United Nations Postal Administration and seeks the approval of the General Assembly for the creation of a reserve to meet the liability.

* A/61/150.

** This report is submitted at the present time owing to the need for extensive consultations with offices.

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# I. Introduction

1. The United Nations Postal Administration (UNPA) was established by the General Assembly in its resolution 454 (V). A primary objective in creating UNPA was the promotion of the aims and activities of the United Nations to the rest of the world through the issuance of United Nations postage stamps.

2. Following agreements with the postal services of the United States of America, Switzerland and Austria, UNPA was authorized to produce and sell United Nations stamps. The agreements stated that the respective post offices would be reimbursed for mailing charges for United Nations stamps. United Nations stamps can only be mailed in the post offices and mailboxes installed in United Nations sites. Over the past 20 years, UNPA has paid on average 12.2 per cent of its income of $249.2 million for the period to the respective postal services for mailing, representing an annual postal charge of approximately $1.5 million; 87.8 per cent could constitute a contingent liability in as much as there is the theoretical possibility that such stamps could be presented for mailing at any time through UNPA post offices. UNPA will be required to accept such mail and reimburse the national postal services for the agreed mailing costs. No provision has been made to cover such liabilities. This was highlighted in the second performance report of the Secretary-General on the programme budget for the biennium 2002-2003 (A/58/558/Add.1), wherein UNPA had suggested utilizing part of the UNPA net income to create a reserve to provide for the contingent liability. In its report (A/58/604), the Advisory Committee on Administrative and Budgetary Questions encouraged UNPA to make further efforts to negotiate with the postal administrations of the United States, Switzerland and Austria to obtain more favourable agreements that may have a positive impact on contingent liabilities and recommended that current arrangements for accounting of the sale of UNPA stamps be continued. In their recent audits, however, both the Board of Auditors and the Office of Internal Oversight Services have recommended that provision be made to cover the liability.

3. After incurring losses in the 2000-2001 and 2002-2003 bienniums, UNPA achieved a net income of $2.1 million for the biennium 2004-2005. Based on UNPA preliminary financial statements as of 30 June 2006 showing a provisional net income of approximately $0.4 million, it is expected that UNPA will be profitable again in the biennium 2006-2007. In view of the recommendations of the Board of Auditors and the Office of Internal Oversight Services, it is proposed that the General Assembly establish a reserve, from the UNPA net income, to provide for contingent liabilities for the provision of postal services as an exception to regulation 3.14 and rule 103.7 of the Financial Regulations and Rules of the United Nations, which specify, respectively, that "moneys accepted in respect of which no purpose is specified shall be treated as miscellaneous income and reported as gifts in the accounts of the financial period" and that "proceeds from revenue-producing activities and from the rental of United Nations office space shall be credited as miscellaneous income".

# II. Analysis

4. The United Nations Postal Administration has estimated the likelihood of previously issued stamps being presented for mailing. In this regard, benchmarking information received from the Universal Postal Union (UPU) indicates that the vast

majority of individual collectors will not use the stamps from their collections for mailing. This applies in particular to UNPA since most collectors are not located near UNPA offices. However, as the Secretary-General stated in his report (A/58/558/Add.1), there is a risk of bulk mailers presenting items to the United Nations for mailing using United Nations stamps that have no collection value. These bulk mailers are located near United Nations sites and are mostly local stamp dealers who can acquire United Nations stamps at below face value, or other small businesses that can buy United Nations stamps from such stamp dealers at below face value. These bulk mailers use United Nations stamps to save postage costs for mailing their letters and catalogues or for filling their sales orders. As such, while not in the bulk mail business, per se, they use United Nations stamps to save on postage costs for their own businesses. In acquiring such stamps, bulk mailers advertise that they will purchase United Nations stamps at 50-60 per cent of their face value.

5. Over the past five years, UNPA had gross sales of $39.1 million. During that period, $6.1 million, or an average of $1.2 million (16 per cent of sales) per year was paid to postal services for mailing. It is estimated that $3.8 million, or an average of $752,595 (10 per cent of sales) per year, covered bulk mailings.

6. In his report (A/58/558/Add.1), the Secretary-General identified efforts made by UNPA to restrict the possibility of bulk mailers using UNPA for the forwarding of mail items. These measures included extensive discussions with the postal authorities of the United States, Austria and Switzerland. The Swiss postal authority will no longer accept commercial mail from third parties using United Nations stamps. Further discussions with the postal authorities on amending postal agreements have not been successful. UNPA negotiated directly with the stamp trade and obtained an agreement to limit bulk mailing using United Nations stamps. As a result, mail charges for 2005 have been reduced by 70 per cent since their peak in 2002. In 2005, UNPA had gross sales of $8.4 million and paid $663,615 (or 8 per cent of sales) for mailing services, of which approximately $330,897 (or 4 per cent of gross sales) covered bulk mailing. Further options regarding the reduction of bulk mailing are currently being studied. They include the introduction of charges for bulk mailing for additional security screening required for United Nations mail.

7. The United Nations Postal Administration has contacted UPU to obtain benchmarking data from other postal services regarding the financial provisions made for contingent liabilities. However, such data is not readily available. Two replies received from European postal administrations did not quantify the reserves made to cover this liability. One respondent indicated that it did not make any provision. Based on the annual reports of the postal services of Australia, Germany, Japan and Sweden, it appears that an annual retention of between 1.1 per cent and 3.8 per cent of annual sales is included in their budgets. It should be noted that, contrary to the United Nations, national postal services estimate that 85 per cent of their postage stamps are used for immediate mailing, while only 12.2 per cent of UNPA stamps are used for mailing (20-year average).

## III. Conclusions and recommendations

8. Stamps issued in previous decades by UNPA are subject to significant changes in value. Should the value of collectable stamps in general and UNPA stamps in

particular drop significantly, UNPA can expect increased attempts by bulk and mass mailers to purchase collections of United Nations stamps at significant discounts and present them for mailing. A drop in the value of United Nations stamps could occur as a result of a significant downturn in the stamp collecting market or in the event that UNPA stopped issuing stamps.

9. It is the presentation of stamps for postage by bulk and mass mailers that could cause an increase in postal charges. In order to prepare for such an event and, as recommended by the various oversight bodies, the Secretary-General proposes the creation of a reserve to provide for this liability. It is recommended that the level of the reserve be established at $3.3 million. This level has been determined by using the most recent bulk mailing costs of $330,897 from 2005, with an estimated period of 10 years. As the actual amount of the contingent liability is unknown owing to unknown industry fluctuations, the Secretary-General is of the opinion that it would be prudent to estimate a 10-year period. It is recommended that the future net income achieved by UNPA be placed in such a reserve.

10. The Secretary-General recommends approval of the creation of a reserve for contingent liabilities for previously issued UNPA stamps to be financed from the net income achieved by UNPA until the reserve reaches a level of $3.3 million.

## IV. Action to be undertaken by the General Assembly

11. **The General Assembly may wish:**

(a) **To approve the creation of a reserve for contingent liabilities for postal services for previously issued UNPA stamps; and**

(b) **To approve, as an exception to Financial Regulation 3.14 and Rule 103.7, the funding of the reserve by transferring the balance of net income of postal services to the reserve until a ceiling level of $3.3 million is reached.**